

Office of Multifamily Housing Assistance Restructuring



Deal Profile: Urban Property, Tax-exempt Bonds, Tax Credits and FHA Claim Payment. OMHAR recaptured excess Section 8 funds resulting from an out year HAP expiration, allowing the property to benefit from the additional funds.

Overview

This OMHAR restructuring involved the creative application by the PAE of recaptured Section 8 funds from an out year HAP contract, together with the use of tax-exempt bonds and tax credits.

Characteristics

This transaction consisted of 200 (family and elderly) units in an urban environment with a strong need for affordable multifamily housing. The asset needed significant rehabilitation, including correction of some structural deficiencies.

The Solution

This transaction was brought into OMHAR in advance of the expiration of the HAP contract to take advantage of the recaptured funds. Tax-exempt bonds and tax credits were issued. The property was sold to a newly capitalized limited partnership. Particulars included:

- A new FHA-insured 223(a)(7) mortgage with a bifurcated note. The “A” piece funded by NOI, the “B” piece funded by the excess Section 8 funds recaptured. The “B” piece was fully amortizing over the remaining term of the original HAP contract,
- \$1.8 Million in rehab (\$9,000/unit), correcting structural deficiencies, accelerating replacements, and improving the overall quality of the housing,
- Issuance of tax-exempt bonds with a below-market interest rate (5.83% + 50 bp MIP) and attendant sale of 4% tax credits allowing for greater level of rehab,
- 10% of Surplus Reserves available to owner because the capital needs were fully funded,
- 33.5 year M2M Use Agreement.

The Consequences

The marriage of credits, bond financing, and recapture of excess Section 8 rents with the FHA payment of claim allowed for an accelerated rehab/replacement schedule.